

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC5119

<b>Project Name</b>	BRAZIL BAHIA SUSTAINABLE RURAL DEVELOPMENT PROJECT (P147157)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Brazil
<b>Sector(s)</b>	General agriculture, fishing and forestry sector (40%), Agro-industry, marketing, and trade (30%), Water supply (20%), Information technology (10%)
<b>Theme(s)</b>	Rural markets (40%), Technology diffusion (20%), Trade facilitation and market access (20%), Rural policies and institutions (10%), Gender (10%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P147157
<b>Borrower(s)</b>	Secretaria de Planejamento (Secretariat of Planning) - SEPLAN
<b>Implementing Agency</b>	Companhia de Desenvolvimento e Ação Regional - CAR
<b>Environmental Category</b>	B-Partial Assessment
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<b>Estimated Date of Board Approval</b>	30-May-2014
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

1. This document presents the concept for an Investment Project Financing (IPF) loan of US \$150 million to the State of Bahia. The proposed loan would assist the Government of Bahia (GoB) with its poverty reduction and shared prosperity goals by promoting environmentally and economically sustainable development through investments in social and productive inclusion, as well as water and sanitation services (WSS) in rural areas of Bahia over a 6 year period.
2. Over the last decade, Brazil has made significant advances in terms of economic management, poverty reduction, and social indicators. Consecutive governments have maintained sound macroeconomic policies, achieving low inflation, robust economic growth, and significant job creation. Growth in employment and labor incomes, as well as the implementation of targeted

social assistance programs, such as Bolsa Família, have contributed to a reduction in the share of Brazilians living below the extreme poverty line of R\$70 (US\$35) a month from 10.5 percent at the start of the 2000s to 4.7 percent in 2011, as well as a reduction in inequality as reflected in a fall in the Gini coefficient from 0.59 to 0.53 over the same period.

3. Bahia ranks as the sixth largest state economy in Brazil and accounted for about 4.1% of national gross domestic product (GDP) in 2010. Bahia, like other Northeastern states, has lagged behind in terms of socio-economic development with a GDP per capita (R\$11,007 in 2010) about half the national average. However, in the past decade, targeted national and state social policies coupled with high economic growth averaging over 5% annually since 2003 have lifted a mass of the poor into the middle class. The percentage of the population living below the poverty line in Bahia (< US\$2.5/a day) has decreased from 46.9% in 2003 to 23.5% in 2011.

4. Despite these achievements, the State of Bahia still faces persistent poverty and inequality and lack of basic infrastructure, particularly in rural areas. Bahia has one of the lowest urbanization ratios in the country at 68 percent. More than half of its 417 municipalities have less than 20,000 inhabitants with high rates of dependence of state and federal government transfers. Furthermore, there are significant disparities between rural and urban household access to safe water. Not only are the poorest rural people disproportionately affected by lack of access to reliable water resources, but also among Bahia's rural population, very few households have access to adequate sewage systems.

#### **Sectoral and Institutional Context**

5. The GoB is aligning its development strategies with the Federal Government's Brasil Sem Miséria Plan for eradicating extreme poverty by promoting productive inclusion and universal access to basic infrastructures. The proposed Project objectives and activities are consistent with the GoB's multiyear plan (Plano Plurianual –PPA) which is organized around strategic axes including: (i) social inclusion and affirmation of rights; and (ii) sustainable development and infrastructure for development.

6. The main objective of the State's productive inclusion policy is to foster regional development and integration and poverty reduction, in particular for lagging regions. The State Secretariat for Development and Regional Integration (SEDIR), through its Corporation for Rural Action (CAR), has, since 2006, with Bank support, carried out well over 2,000 demand-driven community-level investments in rural water and sanitation, in addition to initiatives aimed at increasing productivity of small-scale producers across rural Bahia. Ongoing partnerships with the Federal Government in support of these goals include the National Program to Strengthen Family Agriculture (PRONAF), the Federal Sanitation Program (FUNASA), and the National Program for Agrarian Reform (INCRA). The PPA proposes technical support to rural producers through seed capital, technical assistance and rural extension across selected producer chains to enable greater market participation, specifically for institutional niches, such as the National School Feeding Program (PNAE), as well as private markets. More recently, the Bank supported sectoral efforts of Health and WSS to increase access to simplified water systems and reduce the incidence of waterborne disease. The World Bank is also providing policy support to the GoB's efforts to improve social and productive inclusion (equity); develop social physical and institutional infrastructure for sustainable development (efficiency); and strengthen planning and management of the public sector (governance).

#### **Relationship to CAS**

7. The proposed Project's objectives and strategy are also fully in line with The World Bank Group's Country Partnership Strategy (CPS) 2012-2015 . In the agricultural and natural resource

management (NRM) sectors, the proposed project would support two key challenges outlined in the CPS: (a) seizing opportunities for innovative and integrated approaches to climate-smart, inclusive economic growth, focusing on rural productivity; and (b) addressing the competitiveness issues that Brazil faces in agriculture and NRM. The proposed Project would also support the other two CPS pillars by contributing to an Equitable Brazil by contributing to poverty reduction, improved nutrition and food security, as well as increasing access to basic infrastructure in rural areas. It would contribute to a Sustainable Brazil through the promotion of environmentally and socially sustainable production systems, including the piloting of incentives schemes for innovations and technologies. The proposed Project's objectives and activities are also in line with key focus areas of the World Bank's Action Plan (FY13-15) including: green and inclusive growth, gender and human development, agriculture and rural development/nutrition, knowledge transfer, and ICT. (Bahia State Integrated Project: Rural Development (PRODUZIR II & III) (P093787) Integrated Health and Water Management Project (P095171) Bahia Socio Economic Development for Inclusive Growth DPL (P126351) Report No. 63731-BR discussed by the Executive Directors of the World Bank Group on November 1, 2011.)

## II. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

8. The proposed PDO is to support the Borrower's strategy for poverty reduction and shared prosperity in rural areas of the State of Bahia by: (i) promoting productive alliances and value chain integration in order to increase incomes of family farmers; (ii) making smart-agriculture investments to improve, climate resilience, nutrition and food security; and (iii) expanding access to water and sanitation services, and complementary rural infrastructure.

### Key Results (From PCN)

9. To achieve the PDO, key results expected from the Project are: (a) an increase in the real net revenue (inflation adjusted) of the beneficiary producer organizations; (b) an increase in the number of beneficiary organizations participating in environmental restoration activities and conservation in Project areas; (c) an increase in the number of people in rural areas provided with access to improved water and sanitation services under the Project; and (d) at least 30% of Project beneficiaries are women.

10. The target beneficiaries of proposed Project activities include family farmers, informal economy entrepreneurs, settlers, indigenous and quilombola communities. In order to achieve key results, the Project will adopt a differentiated approach to two core groups of beneficiaries identified on the basis of national poverty measures as follows.

## III. Preliminary Description

### Concept Description

11. In order to achieve the PDO, the Project will support Borrower efforts to:

- (a) Promote the conditions necessary for the generation and increase of employment and income for family farmers through increased productivity and greater market integration;
- (b) Strengthen delivery and quality of appropriate technical assistance and training for Project beneficiaries and their organizations;
- (c) Improve basic infrastructures required to support production and marketing (e.g. energy, logistics, water for production) and to improve the quality of life (e.g. WSS for improved public

health, crop diversification for improved nutrition and food security);

(d) Make investments needed for the restoration and conservation of cultural and environmental assets;

(e) Promote the social and economic inclusion of women, youth, indigenous and other traditional communities.

12. Project Components would be organized in the following fashion in support of Borrower efforts:

13. Component 1: Productive Inclusion and Access to Markets (US\$ 221.9 million of which US\$ 120.4 million IBRD financing). This Component aims to reduce regional inequalities by increasing productive inclusion and access to basic infrastructure through the following Subcomponents.

14. Subcomponent 1.1 - Productive subprojects (US\$ 153.0 million of which US\$ 64.2 million IBRD financing), consisting of matching grants and technical assistance to selected producer organizations to: (i) increase levels of productivity, support their integration into eight priority value chains, and increase their access to markets (both private and public), resulting in increased levels of net revenues; and (ii) support nutrition, food security, environmental and cultural asset recovery, restoration and protection. Productive subprojects will be identified through participatory local development planning and selected based on a review of subproject proposals and business plans identifying beneficiary contribution (financial and/or in-kind), and presenting social environmental and economic sustainability analysis.

15. Subcomponent 1.2 - Basic Rural Infrastructure (US\$ 68.9 million of which US\$ 56.2 million IBRD financing) subprojects to (i) increase coverage of WSS systems in rural areas; (ii) support modernization and expansion of electricity provision for productive units; and (iii) improvement of rural access roads and bridges.

16. Component 2: Institutional Development and Technical Assistance (US\$ 19.4 million of which US\$ 19.4 million IBRD financing). This Component seeks to develop participatory methodologies and provide capacity building to Project beneficiaries and their organizations. It will also support capacity building of Project implementing agencies & partners, strengthen strategic analysis and planning capacities and the development of sub-project business plans. It will consist of the following sub-components:

- Subcomponent 2.1 – Research and Diagnostics
- Subcomponent 2.2 - Training and Capacity Building
- Subcomponent 2.3 – Communication

17. Component 3: Project Management (US\$ 18.8 million of which US\$ 10.3 million IBRD financing). This Component will strengthen capacities of the main project implementing agency CAR in both its central and regional offices to ensure effective Project management, monitoring and evaluation (M&E).

18. Methodologies for the identification of Project beneficiaries, targeting of investments and selection criteria for productive and infrastructure subprojects will be fully developed during Project Preparation and outlined in the Project Operation Manual (POM). All subprojects will be required to prepare ex ante feasibility analysis demonstrating economic, social and environmental sustainability of proposed investments.

19. The Project will adopt a dual strategy to achieve its objectives by encouraging integration of various public policies (including programs, projects and associated activities) that are operating in the Project's target areas; and by encouraging public-private partnerships (promoting productive alliances and using consortiums) in order to leverage resources and services. Moreover, this Project will be guided by the following considerations.

(a) Regional/territorial approach: Planning and coordinating interventions at the territorial level

will aid in integration of various federal- and state-level programs to boost economic and social inclusion. Priority will be given to territories within the Semi-Arido region, which spans 69 percent of the territory, is the poorest and least developed region of the State, and accounts for the majority of family farmers.

(b) Linking agriculture with nutrition, food security and poverty reduction. The Project seeks to harness the potential of the agriculture sector in Bahia, particularly small-scale family farming for improving nutrition, food security and poverty outcomes.

(c) Climate-smart responses: The proposed project would stimulate innovations that jointly increase agricultural productivity, increase the efficient use of scarce water, and promote climate change resilience while reducing carbon emissions.

(d) Technology and innovation strategy: The Project will help rural producers adopt new technologies and access greater commercial intelligence in order to thrive in dynamic markets. This will require fresh learning approaches to stimulate a “rural innovation culture” conducive to competitiveness and capable of connecting education to jobs.

(e) Integrating producer organizations in value chains: Collective action among small-scale producers can reduce asymmetric bargaining power in markets dominated by intermediaries and reduce individual risk. Previous Bank-financed operations in Bahia have fostered community associations and cooperatives, mostly composed of small-scale producers who would be targeted under the proposed operation.

(f) Shared risk and benefits: At present, small-scale producers assume the typical risks of farming, as well as the risk of not selling their product, or selling it without recovering costs. Productive alliances provide a way for the different actors of a value chain to share both the production risks and associated revenues.

(g) Promoting public-private partnerships: Productive alliances bring private and public sector actors together to promote “win-win” market solutions. As well, economies of scale can be achieved through the use of inter-municipal consortiums to contract services or deliver infrastructures.

(h) Social inclusion: gender, youth and traditional communities: The project’s inclusive design will also promote gender equity, women’s empowerment, youth participation and the inclusion of indigenous, quilombola and other traditional communities. This will be achieved through a combination of targeted capacity building activities and social inclusion requirements in the process of subproject identification and selection.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37			x
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

**V. Financing (in USD Million)**

Total Project Cost:	150.00	Total Bank Financing:	150.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
International Bank for Reconstruction and Development			150.00
Total			150.00

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